

VZCZCXRO1219
PP RUEHAG RUEHBC RUEHDBU RUEHDE RUEHDIR RUEHKUK RUEHROV
DE RUEHKB #0290/01 0681423
ZNY CCCCC ZZH
P 091423Z MAR 07
FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC PRIORITY 2551
INFO RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES
RUCNIRA/IRAN COLLECTIVE
RHMFISS/CDR USEUCOM VAHINGEN GE
RUEAIIA/CIA WASHINGTON DC
RUEKDIA/DIA WASHDC
RHEHNSC/NSC WASHDC
RHMFISS/CDR USCENTCOM MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000290

SIPDIS

SIPDIS

E.O. 12958: DECL: 03/08/2017
TAGS: [PREL](#) [PGOV](#) [ENRG](#) [AJ](#) [TU](#) [IR](#)
SUBJECT: AZERBAIJAN PRESIDENT SAYS SOCAR MIGHT DEVELOP ACG
DEEP GAS

Classified By: Ambassador Anne. E. Derse, Reasons 1.4 (b,d)

11. (C) SUMMARY. In a February 27 meeting with the Ambassador, President Aliyev signaled his desire to coordinate with the USG on issues relating to Kazakhstan and Turkmenistan energy transiting Azerbaijan. To this end, he supported the idea of Baku hosting an IEA-sponsored energy conference in the spring. The GOAJ is considering having SOCAR, not BP, develop ACG deep gas, due to BP "unreliability." President Aliyev and the Ambassador also spoke about Iran, the NEC, and adoption issues, to be reported septel. END SUMMARY.

12. (C) On February 27 the Ambassador met with President Aliyev to discuss a number of outstanding issues, to include regional energy developments. Econoff was notetaker.

EASTERN CASPIAN

13. (C) Alluding to the FM's visit to Kazakhstan, Aliyev said there are many practical issues emerging, such as energy cooperation re Kazakhstan and Turkmenistan. He met recently with Chevron and Total and these companies were enthusiastic about bringing Kazakh oil and gas to Azerbaijan. The GOAJ is eager to work with Kazakhstan and international energy corporations - "five years from now, there will be thirty million tons or more of oil Kazakh oil from Kazakhstan, to say nothing of Kazakh gas." The Southern Corridor is "available - they (Kazakhstan) have to decide." In this matter, "Kazakhstan needs Azerbaijan more than Azerbaijan needs Kazakhstan." Referring to the fact that the eventual amount of Kazakh oil trans-shipped through Azerbaijan could be more than 50 (sic) million tons annually, Aliyev said that the GOAJ would be "as enthusiastic as the Kazakh government, but not more so."

14. (C) The Ambassador said that it was her impression from Washington that there was momentum from Kazakhstan concerning shipping its oil through the BTC. Aliyev, giving details on preparatory work being done by Azerbaijan in conjunction with Kazakhstan, said that "Azerbaijan is ready, the companies are ready." Progress depends on the Kazakh government, which he admitted had shown some interest. In response to the Ambassador's question about whether the GOAJ has received signals of interest from the Kazakh government, Aliyev said that the IGA signed in 2006 envisioned a joint transportation infrastructure, and that all that was needed was "Kazakh political approval" to go forward - "Kazakhstan needs to be more courageous," like Azerbaijan, who took the heat when it

opposed Gazprom. He added that SOCAR president Abdullayev was accompanying FM Mammadyarov on his visit to Kazakhstan, to follow up on oil transportation issues. To carry Kazakh oil, Aliyev said that a fleet of medium-capacity tankers (60,000 tons) needed to be built.

15. (C) Concerning Turkmenistan, he said that there were "promising signs" from Ashgabat, and that the PM had had a good meeting with the new Turkmen President at the latter's inauguration. If Turkmenistan re-opens its Embassy in Baku, he will send the FM to Ashgabat for a visit. The Ambassador said that A/S Boucher had gone to Ashgabat for the inauguration, had important meetings there, and received some positive signals. There have been signs that the Turkmen government will seek to open up the school system, and the USG has sent technical teams to Ashgabat to work on education and health issues. PDAS Mann is scheduled to travel to Turkmenistan imminently to follow up. The Ambassador noted that FM Mammadyarov and DFM Khalafov have signaled GOAJ interest in "coordinating" with the USG in its approach to Turkmenistan. Khalafov also signaled MFA desire to discuss Caspian delimitation issues with the USG, noting however that no overall six-party Caspian delimitation agreement is necessary for Turkmenistan and GOAJ to reach a bilateral agreement that would facilitate a Trans-Caspian pipeline (TCP). Aliyev agreed that it is better were the USG and GOAJ to work jointly on the issues of Turkmenistan and Kazakhstan, as they shared common goals. He suggested that PDAS Mann send a message to the Turkmen government recommending that it seek to work with the GOAJ. Aliyev added that Georgian President Saakashvili had also relayed to him his good impressions from the inauguration.

ALIYEV ENERGY POC

BAKU 00000290 002 OF 003

16. (C) Referring to bilateral cooperation on energy issues, the Ambassador said that during FM Mammadyarov's visit to Washington we were considering signing an Energy MOU, perhaps with Secretary Rice, although nothing was definite yet. Referring to the various GOAJ officials involved in different aspects of GOAJ energy policy, the Ambassador asked Aliyev who the best GOAJ point of contact would be for energy issues. Laughing, the President said "me," since no one else had the full picture and because it was primarily a political issue. He added that the FM was "probably" also a good POC, because so much of the energy issue related to bilateral relations.

17. (C) The Ambassador said that during the mid-February Paris IEA Energy Conference, DAS Bryza had proposed to the GOAJ representatives (DFM Araz Azimov and SOCAR VP Elshad Nasirov) that Baku host a follow-on IEA Spring energy conference. President Aliyev liked the idea, and said he supported it.

ACG DEEP GAS

18. (C) The Ambassador asked Aliyev what message the GOAJ was trying to get out about its energy reserves and their availability for European markets. Aliyev said that formerly the GOAJ was trying to keep a "low profile," but now with the completion of the SCP and the imminent beginning of production from Shah Deniz, the GOAJ 'open for business' message was now a public one.

19. (C) The Ambassador lauded this pronouncement, but pointed out that at the Paris IEA conference there had been some doubt from European potential customers as to the amount of Azerbaijani gas that would be available o/a 2012 for TGI and Nabucco Phase I. Aliyev pointed out that the production profile for Shah Deniz Phase I was eight bcm, not enough for anything more than symbolic deliveries to Europe, which was partially why the GOAJ was loath to make any commitments at

the IEA conference. As for how much would be available o/a 2012, Aliyev said that the question "depends on BP, who let us down." Aliyev said that Azerbaijan had to be "one hundred percent protected," and able to back up any commitments for gas deliveries that it makes. A frustrated Aliyev said that if the GOAJ signs agreements with European customers, "I can't depend on BP." To avoid a repetition of the type of disappointment the GOAJ has experienced with BP on Shah Deniz, the GOAJ was considering working, itself, solely on ACG Deep Gas, "unless BP were to give us strong commitments."

Due to BP mistakes, contrary to previous predictions, Aliyev said Shah Deniz will produce less than three billion cubic meters (bcm) this year. Additionally, Aliyev said he wasn't clear as to the exact nature of BP-Russia relations, and that he couldn't be sure that BP wouldn't compromise its interests in the GOAJ energy sector due to Russian pressure/enticements relating to BP assets, including TNK, in Russia. He could not commit to fulfilling 'one hundred percent' of Nabucco's gas needs o/a 2012. He said however that next year SOCAR's gas production would double from four to eight bcm, and that overall Azerbaijani production would be "oriented towards European markets."

¶10. (C) When the Ambassador asked him whether the GOAJ was seeking to promote primarily Azerbaijani gas or gas from the Caspian in response to the probable 2012 demand, Aliyev said he was seeking to do both. Azerbaijan had no plans to be the "number one supplier." Re Turkmenistan, he said that he didn't want a repeat of the past, when the GOAJ, per the Energy Charter, asked for capacity, which Turkmenistan refused. This time around, Aliyev said that he doesn't want the GOAJ to take the lead in TCP talks with Turkmenistan - it should be their initiative, although he cautioned that once again Turkmenistan will seek for the GOAJ to take the lead. The Ambassador alluded to the recently concluded bilateral USG-GOAJ energy diplomacy dialogue (septel) on the fringes of the EPC, where Azerbaijan put out the message that Azerbaijan as supplier didn't want to appear more eager than potential customers. President Aliyev assented, saying that he had instructed his team to put out this very message. However, Azerbaijan realizes that "Europe is our market," and he claimed that Azerbaijan was "very active" in going after that market to increase Azerbaijan's market share. At the moment however GOAJ efforts were hampered by "BP's low production

BAKU 00000290 003 OF 003

profile."

¶11. (C) Aliyev said that Russia was trying to "buy everyone off" in Europe, and repeated his concern that Russia could use its gas assets to influence BP in Azerbaijan. He speculated that it could even be possible for BP to sell its assets in Shah Deniz to Russia, which would be dangerous for GOAJ national security. As such, "we cannot rely on companies." He questioned pointedly all the "coincidences" relating to the delays with Shah Deniz, and said that Azerbaijan "must be sure, must keep its reputation" and therefore "must do things ourselves."

GOAJ ENERGY POLICY

¶12. (C) When asked by the Ambassador about Russia's current energy policy, Aliyev said that Russia was continuing to "complicate the EU energy market." Russia's domestic gas consumption was increasingly rapidly, which meant less gas for Europe. He said that when Russia is forced to increase domestic prices for gas, there would be no difference between the price they could get domestically and the one they could get from Europe, meaning less gas for Europe. Therefore, Russia is putting obstacles in the way of Azerbaijani gas sales to Europe. Aliyev pointed out that President Putin always travels to where Russia sells oil and gas. Aliyev said that "we are the only alternative to Russian gas, which is why if I were them, all my efforts would be to prevent, buy or control Caspian gas." The Ambassador asked whether

the GOAJ was currently feeling much Russian pressure, to which Aliyev responded that no, now seemed to be a time in which both sides were "thinking."

¶13. (C) Aliyev said that the GOAJ needed to start talking with Turkey on a transit regime, although it seemed as if Turkey was still seeking to be a buyer/seller of transiting gas. "We never planned to sell beyond Turkey - so this is a new headache." Aliyev pointed out that the GOAJ had spent weeks working on Shah Deniz gas redistribution discussions with Turkey, but now with less than three bcm/a in 2007, talking about redistribution is "silly." Additionally, Turkey is "playing with Azerbaijan and Georgia," since it is not ready to accept gas. Aliyev said that Saakashvili realizes that Turkey cannot take Shah Deniz gas before July at the earliest.

¶14. (C) The Ambassador asked when the GOAJ was going to start transit talks with Turkey and asked what the USG could do to help. President Aliyev said that first the GOAJ needed to clarify Azerbaijan 2007 production in relation to the existing trilateral quotas. If in fact there is only going to be approximately three bcm of Shah Deniz gas available in 2007, the three countries have to decide on what basis this amount will be distributed. An angry Aliyev repeated that it was "very bad that BP had let Azerbaijan down" by production delays, which had "threatened our system." Azerbaijan was losing vast sums of money by converting oil to mazut for use in its power plants, and by giving extra gas to Georgia at USD 120 per thousand cubic meter (mcm), which was less profitable than using it domestically. The more gas the GOAJ gives to Georgia, the more money it loses.

COMMENT:

¶15. (C) COMMENT: In light of this fall's difficulties with Shah Deniz production, Aliyev was very candid and bitter about the extent to which he felt let down by BP specifically, and, as a result, is wary of international energy companies more generally. GOAJ exasperation with BP is understandable. Given corruption and lack of capacity/experience at SOCAR however, a SOCAR lead in developing GOAJ energy resources could be problematic. As evidenced by his designation of himself as energy POC within the GOAJ, it seems clear that the President is playing his cards on energy close to his chest within his own government. The President's eagerness to work with his neighbors on the Eastern Caspian on energy matters is heartening, as is his statement that Azerbaijan is actively seeking to expand its presence in the European energy market. Embassy will work with the GOAJ and the relevant companies towards facilitating a Spring IEA Energy conference in Baku. END COMMENT.
DERSE